

EXHIBIT A.521

(16 of 17)

Table 8.7
Estimated Spending Requirement Per Student

Year	Primary	Secondary	Tertiary
2004	\$755	\$841	\$1,553
2005	\$712	\$820	\$1,510
2006	\$690	\$776	\$1,445
2007	\$669	\$755	\$1,402
2008	\$647	\$733	\$1,337
2009	\$625	\$712	\$1,294
2010	\$652	\$722	\$1,351
2011	\$637	\$735	\$1,348
2012	\$644	\$747	\$1,366
2013	\$651	\$732	\$1,356
2014	\$657	\$743	\$1,371

appendix provides a more detailed explanation of these enrollment projections. We include one year of kindergarten in the primary enrollments.

All of these enrollment estimates are reported in Table 8.8. As the columns show, enrollments in general are projected to increase substantially over this 11-year period at all levels, primarily because of rapid youth population growth and secondarily to modest increases in educational participation.

Table 8.8
Estimated Enrollment

Year	Enrollment (number of students)		
	Primary	Secondary	Tertiary
2004	987,062	100,606	110,771
2005	1,116,841	104,051	120,727
2006	1,180,119	112,738	124,861
2007	1,244,611	121,666	135,286
2008	1,311,157	130,760	145,999
2009	1,380,356	140,043	156,912
2010	1,438,274	149,506	168,052
2011	1,502,996	156,234	179,407
2012	1,570,631	163,264	187,481
2013	1,641,309	170,611	195,917
2014	1,715,168	178,289	204,733

NOTES: The sources and methodology are described in the appendix. Primary enrollments include one year of kindergarten.

Multiplying the per-student funding requirements in Table 8.7 by the estimated enrollments in Table 8.8 yields the total estimated funding required for successful development, shown in Table 8.9. The annual funding required remains approximately level because of two offsetting effects over this period. Initially, the spending required per student is higher (see Table 8.7) because we allow more capital spending in the early years after statehood. Later on, spending required per student declines, but the enrollments increase. The decrease in spending per student offsets the increase in students enrolled, resulting in an annual funding requirement that remains more or less level over most of the period, at approximately \$1 billion to \$1.5 billion.

These estimates assume that there is no significant effect from net migration over the period 2004 through 2014. In the event that migration flows are significant during this period (as predicted in the Demography chapter) and result in more children of school age, the spending requirements will increase correspondingly from the levels estimated here.

We now compare this funding requirement with recent spending history. Because of the great disruptions since 2000, we use 1996–1999 figures for comparison. Using PA figures for estimated spending from all sources (public, private, and international), we see in Table 8.10 that total spending was roughly \$250 million. Thus, our estimates of education funding required by a new Palestinian state are about four times the recent spending level.

In terms of spending per student, Table 8.10 shows that primary and secondary education averaged about \$220 per student and tertiary about \$1,400. The relatively high tertiary spending per student is a result of the emphasis on universities rather than community colleges. Comparing current spending with our estimates of required spending per student in Table 8.7, we see that our estimates are roughly two to three times higher than recent spending levels for primary and secondary but only slightly higher for tertiary. We would, however, expect significant increases in tertiary enroll-

Table 8.9
Estimated Total Education Funding Required for Successful Development (millions of dollars)

Year	Primary	Secondary	Tertiary	Total
2004	\$745	\$85	\$172	\$1,002
2005	\$795	\$85	\$182	\$1,062
2006	\$814	\$88	\$180	\$1,082
2007	\$832	\$92	\$190	\$1,114
2008	\$848	\$96	\$195	\$1,139
2009	\$863	\$100	\$203	\$1,166
2010	\$938	\$108	\$227	\$1,273
2011	\$958	\$115	\$242	\$1,315
2012	\$1,012	\$122	\$256	\$1,390
2013	\$1,068	\$125	\$266	\$1,459
2014	\$1,127	\$132	\$281	\$1,540

Table 8.10
Education Spending in Palestinian Territories (All Sources), 1996–1999

Year	Education Spending (All Sources)				Estimated Spending Per Student	
	Current Dollars (millions)	2003 Dollars (millions)	Primary and Secondary (millions of dollars)	Tertiary (millions of dollars)	Primary and Secondary (dollars)	Tertiary (dollars)
1996	\$214	\$240	\$170	\$70	\$240	\$1,709
1997	\$220	\$243	\$171	\$72	\$219	\$1,423
1998	\$246	\$268	\$188	\$80	\$224	\$1,418
1999	\$240	\$258	\$180	\$77	\$203	\$1,166

SOURCES: Palestinian Ministry of Higher Education, the PA, and the World Bank, 2002, and authors' calculations.

NOTES: All figures are in 2003 U.S. dollars except "Current Dollars," which reports actual annual spending without adjusting for inflation. The U.S. GDP price deflator was used to adjust to 2003 dollars. "Education Spending (All Sources)" indicates that spending from public, UNRWA, and private sources is included in the amounts.

ments with more students attending lower-cost community colleges and a significant number at the more expensive universities.

Palestinians already have an education system that is very good when compared with societies with similar levels of income and development. To achieve an excellent universal education system in a new state will require even more funding than present or recent levels. The figures here do not specify how that funding should be provided (i.e., from the state budget, from international sources, or from private payments such as tuition), but the following observations are relevant to funding decisions.

In the face of budget pressures, the PA has turned to private payments for tuition, especially at the tertiary level. Once employment possibilities improve to the point where students can earn reasonable incomes during and after tertiary education, this can be a viable strategy for at least some of tertiary financing. Income potential after tertiary education and a reasonable financing system would allow students to take out loans to pay for tertiary education and repay the loans during working years. But until that point is reached, high tuition payments will necessarily drive down enrollments, degrading the functioning of the system.

Without substantial international funding, at least during the early years of statehood, the new state will almost certainly not be able to afford the kind of system described here. A number of compromises are possible, which would make delivery of education cheaper, but all will entail reductions in quality. Strategies to reduce funding requirements include the following:

1. Use existing buildings with less-extensive renovation and reconstruction than supposed here.

2. Focus tertiary education on less-expensive community colleges with one- and two-year programs, rather than four-year university programs.
3. Keep large class sizes, or even increase class sizes.
4. Continue to run two shifts per day in many schools to stretch the use of the capital resources available.
5. Ration access to fewer students than otherwise would wish to take advantage of the system.

As stated, each of these will significantly compromise the quality of the education system and lead it to fall short of the goals described in this chapter. If funding is insufficient, however, we recommend that they be considered in the order in which we have listed them. In the event of insufficient funding, we would expect the development of a good Palestinian education system with less than universal service, somewhere between the present system and the ideal of an excellent, universal system envisioned in this chapter.

Summary and Conclusion

The development of a strong education system will be essential to the success of any Palestinian state. This chapter has outlined a framework for excellence within which such a system might be conceived and suggests measures for achieving it. Specifically, we recommend the following steps as the system moves toward independence and sustainability:

Access

- Maintain access to basic education at near-universality.
 - Focus on students with special needs, in collaboration with the Ministries of Health and Social Affairs.
 - Reduce dropout rates by addressing school quality issues cited as factors in school leaving.
- Develop programs that increase access to secondary education.
 - Focus on quality of vocational and technical education and the academic sciences.
 - Expand public-private partnerships with industry and business in vocational-technical programming.
- Add a kindergarten year to the public education system.
- Prioritize efforts to upgrade facilities across levels of the system.
 - Focus near-term investment on infrastructure repairs, resourcing, and new construction.

Highest Quality Priorities

- Ensure that learning standards are internationally competitive and aligned with curricula and assessments, and that curricula reflect system goals of internal stabilization and democratization and external integration.
 - Collaborate with the Ministry of Labor to align vocational and technical standards and ensure their high quality.
- Place priority on pedagogical development of teaching staff.
 - Fully fund and staff efforts to support reformed pedagogy at the school level.
 - Work in closer collaboration with NGOs and other educational actors involved in rethinking pedagogy.
- At the administrative level, focus on developing the instructional leadership and support capacity of current principals and regional supervisory staff.
- Develop a broader pool of quality instructors in English, the sciences, and information technology.
 - Compensate all staff at levels that make second jobs unnecessary.
 - Consider salary bonuses or other incentives for these high-need fields.
- Develop mechanisms for holding staff and schools accountable for performance and attention to goals.

Other Quality Considerations

- Devote research resources to better understanding barriers to and facilitators of student performance by gender; incorporate findings into development of curricula, pedagogy, and system structure.
- Develop more-sustainable funding for tertiary education.
 - Consider loans, balanced with subsidies for high-cost, high-priority specializations.
- Align programs across tertiary education institutions to support exchange and continuity within the sector.
- Develop expectations for tertiary education performance that link to the standards and goals of the lower levels of the system.

Delivery

- Increase spending on education as a proportion of the national budget, and maintain levels robust enough to meet both infrastructure and development needs of the system.
- Work with donors to streamline and standardize funding and reporting mechanisms.
- Strengthen evaluation mechanisms within the system, with a priority focus on system-level structures and long-term investment in initiatives for data analysis and utilization.

- Structure absorption of UNRWA schools and staff to maximize retention of UNRWA's human and physical resources.
 - Capitalize on UNRWA training infrastructure.
 - Ensure that UNRWA expertise is reflected at the ministry level, not only in schools.

We believe that these measures are not unreasonable and that they would provide the Palestinian state with the broad educational capital it will need to move into a position of strength in the region and in the world. However, in the context of both notable strengths and significant challenges to the current system, patience and sustained support from external partners will be required to allow reform to take hold. Without such support, the system's potential cannot be achieved.

Appendix 8.A: Methods for Estimating Education Costs

Per-Student Expenditures

Since the majority of education spending is for the salaries of teachers and administrators, education costs are closely related to national salary levels across countries. A standard way of expressing education costs is by computing the ratio of education spending per student to GNI per capita (which is an approximate way of indicating the average national salary level per worker). UNESCO computes this education spending ratio for countries where data are available.

The aspirations for the Palestinian education system will require spending at levels comparable to countries with excellent education systems. To estimate this level, we present UNESCO data for selected countries in Table 8.A.1. Ideally we would use countries with similar economic and social context (and similar teacher salaries) that already have highly developed education systems. In the immediate region, only Israel both fits this category and supplies data to the United Nations. Other regional countries that would be useful comparisons include Egypt, Lebanon, the United Arab Emirates, Bahrain, and Saudi Arabia, but these countries do not report these data to the United Nations.

Since we have data for only one country in this category, we look at data for regional countries with moderately developed education systems. Three of these coun-

Table 8.A.1
Education Spending Per Student As a Percentage of GNI Per Capita, 2001

Education Level	Primary	Secondary	Tertiary
Within region comparison, highly developed education systems			
Israel	21	22	30
Within region comparison, moderately developed education systems			
Jordan	16	19	(not available)
Iran	12	12	40
Oman	13	21	50
Outside region comparison, highly developed education systems			
Austria	24	29	45
France	18	29	30
Germany	17	22	43
Japan	22	22	18
Sweden	24	27	50
Switzerland	23	28	53
United States (public only)	21	24	27
United States (public and private)	23	26	48

SOURCE: Authors' calculations from UNESCO (2004a) statistics. See text for explanation.

NOTES: Public expenditures only, except where noted. Elementary and secondary education are typically split 6 to 6 or 5 to 7 in most systems, compared with 10 to 2 in Palestine.

tries report data: Jordan, Iran, and Oman. We would want to set the spending ratio for Palestine at or above these levels, especially for primary and secondary education.

We also look at countries in other regions of the world with well-developed education systems. Because the spending ratios are scaled to national salary levels, they can be used as an approximate guide to spending in any well-developed system. Table 8.A.1 presents a number of such countries that report data. All of these figures are based on public expenditures only. To assess the limitations of the public-only figures, the authors estimated the figures in the United States for both public and private expenditures and report these figures in the last row of the table. The United States has relatively little private education in the primary and secondary sectors, and these figures increase only a little when private expenditure is included. There is much more private activity in tertiary education, so those figures increase a good deal.

We select ratios of 23 percent, 26 percent, and 48 percent for Palestine (for each sector, respectively), which are fully consistent with the data shown in the table. These are intended to represent both public and private expenditures in a new state.

We make two significant adjustments to these base figures: one adjustment to recognize the large investments in capital stock that will be required and another adjustment for differences between the time transition path of salary levels and the path of GNI per capita.

Many of the countries in Table 8.A.1 have low rates of population growth and well-developed capital stocks of buildings and equipment. Therefore, these countries do not need to spend as much on capital as the new Palestinian state will require. In Palestine, the population will be growing rapidly, at perhaps 4–5 percent per year (see Chapter Four for more detail on population growth predictions). Furthermore, as we describe above, the existing capital stock is substantially depleted because of damage or depreciation, and it is inadequate to meet the needs of the growing population.

To estimate capital requirements, we examine data from the United States on the ratio of capital to current expenditures. In the United States, about 12 percent of the spending on education is for capital purposes, representing the renewal of existing buildings and equipment and a modest amount of construction in areas with population growth. However, this flow of investment assumes a steady state, with a stable capital stock that is gradually depreciating and being replaced. As noted above, these initial conditions do not apply in Palestine, which needs heavy initial investment to establish an adequate base of infrastructure. Given the useful lifetime of buildings and equipment, we assume that the full costs of constructing the capital stock are perhaps 10 to 20 years worth of “steady-state” expenditures (in other words, the capital stock is renewed every 10 to 20 years). Under this assumption, the initial infrastructure needs of the Palestinian education system represent 120 to 240 percent of spending levels listed in Table 8.A.1. Thus, if the capital stock could be established immediately, initial spending would have to be 220 to 340 percent of the figures in Table 8.A.1 (i.e., at the low end, 100 percent of the spending for the steady-state expenditure, plus 120

percent for the initial investment in infrastructure). In practice, the Palestinian state will have to spread this investment over at least several years; the state will not have the capacity to undertake all of the construction in one year. In addition, even steady-state spending on capital is likely to be somewhat higher than the U.S. ratios, given the growth of the youth population in Palestine.

To make this adjustment, we set spending ratios 50 percent higher than the Table 8.A.1 amounts in the first year and gradually reduce the spending ratio linearly until it reaches the Table 8.A.1 level in year 11. The cumulative effect of this adjustment is to generate enough capital spending to accommodate the construction and purchasing needs consistent with the preceding assumptions.

The second adjustment we make accounts for differences in the likely transition path of salaries, including teacher salaries, versus GNI per capita, during the first few years after statehood. GNI per capita has declined markedly during the 2000–2004 period during the al-Aqsa intifada as a result of severe economic dislocations. The government and UNRWA salary schedules for teachers have not been much affected during this period of dislocation. In practice, however, teachers often simply have not been paid or have been paid partial salaries. In view of this situation, we project that salary levels after statehood would be equal to the present official schedule (which is the level that was actually paid up to 2000). We then expect salary levels to start increasing a few years after statehood as the economy grows and salaries in all sectors begin to rise.

Even under the most favorable future economic conditions described in Chapter Five, it will take three to four years after statehood until GNI per capita recovers to the pre-2000 level. Furthermore, (official) teacher salaries are currently high for a low-income country, consistent with the high priority on education in Palestinian society. Since our education spending factors are based on countries where teacher salaries are closer to one to two times the level of GNI per capita, we adjust the early years of GNI per capita after statehood until the estimates reach a level where teacher wages would be no more than about twice GNI per capita, rather than four or five times GNI per capita in the unadjusted estimates. We make this adjustment so that there are no decreases in teacher salaries from one year to the next.

Using the most favorable economic scenario in Chapter Five, the “high-contiguity/high-integration scenario,” the level where GNI per capita equals twice the teacher salaries prevailing prior to statehood is first reached in 2009. So for our calculations, we base education spending on the wage and price levels that would prevail in 2009 for all years prior to 2009. Later years follow this same scenario, as shown in Table 8.A.3. We could achieve the same effect by adjusting the spending factors in Table 8.A.2 upward for the years from 2004 to 2008, but we consider the former approach a more straightforward way of explaining and calibrating the adjustment.

If actual GNI per capita varies from these supposed trajectories, especially in later years, that would have a material effect on the accuracy of our spending estimates.

Table 8.A.2
Projections of Spending Per Student as a Percentage of Palestinian
GNI Per Capita

Year	Primary	Secondary	Tertiary
2004	35	39	72
2005	33	38	70
2006	32	36	67
2007	31	35	65
2008	30	34	62
2009	29	33	60
2010	28	31	58
2011	26	30	55
2012	25	29	53
2013	24	27	50
2014	23	26	48

To compute estimated spending requirements per student, we multiply the spending factors in Table 8.A.2 by the adjusted GNI per capita in Table 8.A.3. The result is shown in Table 8.7 above. Again, these figures represent spending from all sources: public, private, and international.

Table 8.A.3
Adjusted GNI Per Capita Used to Represent Wages and Prices

Year	Estimated	Adjusted
2004	\$1,105	\$2,157
2005	\$1,400	\$2,157
2006	\$1,627	\$2,157
2007	\$1,804	\$2,157
2008	\$1,985	\$2,157
2009	\$2,157	\$2,157
2010	\$2,330	\$2,330
2011	\$2,452	\$2,452
2012	\$2,577	\$2,577
2013	\$2,712	\$2,712
2014	\$2,857	\$2,857

SOURCE: Based on Chapter Five estimates for the high-contiguity/high-integration scenario.

Enrollments

Primary and secondary participation rates have been very high, as noted earlier in the chapter, so we see no need to make further adjustments. We therefore use the extant PA estimates of projected enrollments, which include primary and secondary students

through 2010. After 2010, we use a youth population growth figure of 4.5 percent per year, based on the demography analyses in Chapter Four.⁴²

For tertiary enrollments, we base the estimates on the previous year's secondary enrollment (see Table 8.A.4). Secondary school covers two grades, whereas tertiary covers between two and four years plus additional enrollments for older learners and postgraduate studies. To achieve high enrollment in tertiary education, we estimate that the enrollments would reach 1.2 times the previous year's secondary enrollment (since secondary education includes only two grades and tertiary can include 2–4 or more, it is logical to see somewhat greater enrollments in the tertiary than secondary levels). These figures are generally consistent with, and slightly higher than, enrollment levels before the al-Aqsa intifada.

Table 8.A.4
Estimated Enrollment

Year	Enrollment (number of students)			
	Kindergarten	Primary	Secondary	Tertiary
2004	70,225	916,837	100,606	110,771
2005	80,618	1,036,223	104,051	120,727
2006	92,550	1,087,569	112,738	124,861
2007	106,247	1,138,364	121,666	135,286
2008	121,972	1,189,185	130,760	145,999
2009	140,024	1,240,332	140,043	156,912
2010	146,325	1,291,949	149,506	168,052
2011	152,909	1,350,087	156,234	179,407
2012	159,790	1,410,841	163,264	187,481
2013	166,981	1,474,328	170,611	195,917
2014	174,495	1,540,673	178,289	204,733

NOTES: For primary and secondary enrollment from 2004 to 2010 and kindergarten enrollment for 2004, PA 2003. For 2011–2014, primary and secondary enrollment is assumed to increase at 4.5 percent per year. For kindergarten 2005–2014, enrollment is estimated as described in the text. Tertiary enrollment is estimated from previous year's secondary enrollment, as described in the text. The stage lengths are kindergarten, 1 year, primary, 10 years, secondary, 2 years, and tertiary, variable. The information in this table is also shown in Table 8.8, where Kindergarten and Primary are combined into a single Primary column.

⁴² We note that a growth rate of 4.5 percent in the school-age population is toward the lower end of the range considered in Chapter Four. Higher growth rates would increase the student population and thus the financial costs of successful development.

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CHAPTER NINE

Conclusions

If a state of Palestine is created, it is essential that it be successful. The purpose of this book is to describe steps that Palestinians, Israelis, Americans, and members of the international community can take to ensure that a new independent Palestinian state is successful.

An independent Palestinian state will begin with a number of strengths. These include a population that is devoted to the success of their state and, according to polls, willing to live side by side and in peace with Israel. This population is relatively healthy and well-educated, compared with other countries in the region with similar levels of economic development; moreover, both the health and education infrastructures have proven themselves to be flexible and adaptive, even in the face of severe social, political, and economic strain. Particularly notable is the strong degree of gender parity in education outcomes. In health, education, and other areas, a Palestinian state will be able to draw on a strong base of governmental and nongovernmental institutions and on many highly qualified professionals. An independent Palestinian state will also surely be created with strong political and financial commitments from the international community to the state's success.

At the same time, the new state will face significant challenges. Most fundamentally, the state must be secure within its borders, provide for the routine safety of its inhabitants, be free from radical subversion or foreign exploitation, and pose no security threat to Israel—conditions that have been lacking since at least the start of the second intifada in 2000. The state must establish and maintain effective governance, rather than the corrupt, nonrepresentative, and authoritarian rule that has characterized the period since 1994. The state will face a large and rapidly growing population, with a very high dependency ratio (i.e., the ratio of children and elders to workers) and the likely immigration of large numbers of Palestinians from abroad.

Other key challenges considered in this book include the implications for the new state of how Palestinian borders, the status of Israeli settlements, and the status of Jerusalem are resolved in settlement negotiations; the need for strong economic development, starting with a recovery from the economic decline that has accompanied the second intifada; the need for adequate, safe, and reliable supplies of water; and the need to strengthen and expand the health and education systems, with respect to financing, physical infrastructure, and human resources.

In the remainder of this chapter, we briefly summarize the conclusions reached in this book. Specifically, we discuss conditions affecting the success of a future independent Palestinian state. We then describe options for Palestinians and the international community to leverage the likely strengths of an independent Palestinian state and address the challenges it will face. Finally, we summarize the potential financial requirements for establishing and sustaining a successful Palestinian state.

Requirements for Success

The requirements necessary to maximize the chances of Palestinian success can be broken into three time frames: immediate (requirements at the state's founding that will affect long-term viability), near term (actions that the international community and Palestinians must undertake in the early years of statehood to assist the process), and near to longer term (actions that must be undertaken after statehood to better institutionalize a successful state). Using these three phases, we can trace the key requirements needed to meet the four criteria we use throughout this book to measure the new state's success: good governance, economic viability, security, and health and well-being (see Table 9.1).

Table 9.1
Important Factors for a Successful State of Palestine

Success Criteria	Important Factors		
	State Founding	State Enabling	State Maturation
Good governance	Land contiguity Border permeability Land size Refugee issues Status of Jerusalem Settlements	Good governance	State legitimacy Administration of justice Health and education Dependency on aid
Economic viability	Land contiguity Border permeability Land size Water Refugee immigration Settlements	Aid Investment Desalination plants	Good governance Regulatory regime Investment climate Administration of justice Water Health and education Dependency on aid Property rights
Security	Land contiguity Palestine security roles Border permeability Refugee immigration Settlements	Counterterrorism Security cooperation Administration of justice Police training	Palestinian police and security Administration of justice Dependency on aid
Health and well-being	Water	Aid for health enhancement and educational reform	Health and education Dependency on aid

State Founding

To thrive, an independent Palestinian state must be designed at its founding to maximize the chances for success. After studying various options, we concluded the following relative to state success:

- **The more contiguous Palestine's lands, the more likely Palestine will succeed.** Contiguity of territory within the West Bank and unrestricted access between the West Bank and Gaza will facilitate almost every aspect of Palestinian life—including economic development, health and education, governance, and security.
- **The more open Palestine's borders, the more likely Palestine will succeed.** Prosperity depends on the relatively free flow of people, goods, and services across all borders (Israel, Jordan, Egypt, and, by extension, the international community).
- **The greater the legitimacy of the new government in the eyes of its citizens—and the more transparent, accountable, and participatory it is—the more likely Palestine will succeed.** Legitimacy will depend on a number of factors, including good governance, territorial contiguity, and land area approaching the size of that in 1967.
- **The more immigrants, and the more rapidly Palestine receives immigrants, the less likely it will succeed.** Refugees can bring valuable skills to the new state. But too many refugees received too quickly will overburden the economy and sap scarce resources.
- **The more Israeli settlements within Palestine, the less likely Palestine will succeed.** Israeli settlements on Palestine's side of the border will complicate the security arrangements between the two states and will disrupt territorial contiguity.
- **The more water Palestine has, the more likely Palestine will succeed.** Close cooperation with Israel will be needed to assure an adequate supply of water. Lack of high-quality water will endanger the population's health and impede economic development.
- **The more involved the international community, the more likely Palestine will succeed.** Given the breakdown of trust between Israelis and Palestinians, the international community will likely need to participate in the design and implementation of the security arrangements agreed to by the parties as well as provide significant economic assistance.

State Enabling

Maximizing the chances of success for the State of Palestine will require a significant international investment of both capital and manpower during the first decade of statehood. The following "state-enabling" correlations pertain to the first decade of Palestinian statehood:

- The more the international community and Palestinians insist on good governance within Palestine, the more likely good governance will be practiced.
- The more willing the international community is to commit financial resources to Palestinian development and security, the more likely Palestine will succeed.

State Maturation

If Palestine is to enjoy long-term success, it will need more than a good initial design and strong international backing. For a mature Palestine to succeed, the Palestinians themselves will need to make smart policy choices.

- The more Palestine bears the responsibility for its security, the more likely Palestine will succeed.
- The more effective, transparent, and accountable the administration of justice in Palestine, the more likely Palestine will succeed.
- The better the health and education of Palestinians, the more likely Palestine will succeed.
- The longer Palestine remains financially dependent on the international community, the less successful it will be as a state.

Options for Facilitating Success

This book has described a number of options for strengthening the institutions of a future Palestinian state in order to help ensure the state's success. These include steps that can be taken—many even before the establishment of a new state—by Palestinians, Israel, the United States, and the international community.

Promoting Security

Since security will present the new state with its most immediate challenges, this is also the area where international assistance can provide the most immediate benefits. The long-term goal should be to engender Palestinian self-sufficiency in dealing with internal security matters and Palestinian bilateral cooperation with its neighbors, especially Israel.

The United States and the international community should help to develop a Palestinian internal security system capable of providing public order and stability. Support for administration of justice and the restructuring, equipping, and training of security services are the most urgent tasks. Support for administration of justice would foster an independent judicial system; provide investment capital for reconstructing courthouses and police stations; and supply equipment and materials necessary for training, such as legal texts, computers, and other office equipment. Regarding secu-

rity services, the focus should be on helping to restructure and streamline the multiple services that now exist and provide training, equipment, and long-term monitoring. In the near term, outside assistance might also encompass the deployment of international police and help in the vetting and recruiting of judges, attorneys, police officers, and others involved in the administration of justice.

Addressing Population Growth

It is likely that the Palestinian population growth rates will continue to fall as the new state succeeds economically and as opportunities for women increase, as has been true elsewhere in the world. Falling fertility rates will likely continue only if economic progress is achieved in the future, which will depend on international private and public investment.

It is likely that there will be considerable immigration to a new state by Palestinians currently living abroad. Based on assumptions about which groups of Palestinians will be most likely to return and under what conditions, we estimate that this immigration may include 500,000 or more people during the first decade of independence. Ultimately, the number of Palestinians returning will depend upon the terms of the final statehood agreement and on social, political, and economic developments in the new Palestinian state. Detailed assessment of the likely scope and impact of immigration is outside the scope of this book.

Developing a Vibrant Economy

Perhaps the most important factor in the economy of the new state will be a high degree of both internal contiguity and economic integration with Israel. A highly contiguous Palestine—one with fewer impediments to the movement of goods and people—would have lower transaction costs and a broader base of economic activity. Also, a Palestine that has permeable borders economically and liberal trade policies with Israel would enable Palestinians to access lucrative employment opportunities in Israel as well as provide customers for Palestinian raw materials and intermediate goods exports.

Palestine should pursue a number of best-practice policies to encourage economic development and growth in per-capita incomes. Clearly these policies should involve efforts to repair and invest in Palestinian infrastructure pertaining to transportation, water, power, and communications; this infrastructure forms the basis of any functioning economy.

But these policies should also involve efforts to nurture economic activity. Critical areas include fostering free trade between Palestine and elsewhere by minimizing the costs of commerce; joining with Palestine's neighbors to develop specific economic sectors; expanding access to capital through a program of industrial and economic development zones, reformed domestic banking policies, and an international insurance fund; and improving the business climate through increased transparency and accountability of Palestinian governance. In light of this array of challenges, an inde-

pendent Palestine will need significant assistance from the international community over an extended period of time.

Improving the Quantity and Quality of Palestine's Water

There are many possible strategies that could be adopted to assure that the water supply, a critical resource, meets the future needs of a Palestinian state. We assess that the most successful strategies would include some of the following elements: (1) an increased allocation of the region's water resources to the new Palestinian state, (2) external financing for the development of infrastructure to produce and procure new water supplies and treat wastewater, (3) substantial investment in water saving and reuse technologies, and (4) a revised agricultural policy that favors the irrigation of high-value crops. Without these actions, continued water scarcity, substandard quality, and inadequate wastewater treatment will dramatically restrict economic development, hinder health improvements, and possibly contribute to continued insecurity in the region.

The analysis presented in this book highlights the need for serious and sustained cooperation between the Palestinians, Israelis, and donor countries in the development of an equitable, sustainable, and adequate water supply and treatment system for a new Palestinian state. Without joint management between the Palestinians and Israelis of the region's groundwater, the quality and quantity of this water will continue to decrease. Without substantial external investment, the financial resources to procure new water supplies and modernize water use in Palestine will not be available. Finally, without sensible planning by all parties, the risk of costly future water shortages will remain unacceptably high.

Improving Health Care

The most immediate priorities for strengthening the Palestinian health system are (1) to strengthen system-wide coordination and implementation of planning, policies, and programs and (2) to improve public and primary health care programs, including an updated immunization program, comprehensive micronutrient fortification and supplementation, prevention and treatment of chronic and noninfectious disease, and treatment of developmental and psychosocial conditions. Other critical improvements include the development of viable and sustainable health care financing systems; updated, standardized, and enforced licensing and accreditation standards for health care professionals, facilities, and training programs and for pharmaceuticals and medical devices; and improved health information systems and research and evaluation capacity.

The details of health system development must be determined by local stakeholders, including governmental and nongovernmental institutions and, ultimately, Palestinian consumers. At the same time, health system development is an area where Israel, other neighboring countries, and the larger international community could play a constructive role, especially in health system planning, licensing and accreditation, development of information systems, and research. Moreover, as we discuss below, a

truly successful Palestinian health system will require considerable outside investment over at least the first decade of independence.

Improving the Education System

Building an excellent education system will be key to Palestine's prosperity and stability in the coming years. The state has a strong base of human capital for development, and maximizing investments in that capital should be a national priority. In the near term, the focus should be on (1) maintaining currently high levels of access to education, while also working within resource constraints to expand enrollments at the secondary level (particularly in vocational and technical education and the academic science track) and in early childhood programs, (2) building quality through a focus on integrated curricular standards, assessments, and professional development, supported by long-term planning for system sustainability, and (3) improving delivery by working with donors to develop streamlined and integrated funding mechanisms that allow the administration to focus on meeting student needs, informed by strong evaluation and backed by significant sustained investment.

Specific ways to meet these goals should be determined through processes of consultation and participation involving the Palestinian community, the government, and international donors. Significant resources for system development already exist in local NGOs, universities, and other educational research institutions, and these should be incorporated into any national plan. International support for education has historically been strong, and both traditional partners and new collaborators can provide valuable conceptual and practical assistance to the system over the coming decade. Costs of building an excellent system will be high, and this international partnership will be essential to achieving funding targets for both capital and recurrent costs.

Financing Successful Development

This book includes estimates of the financial costs associated with implementing each chapter's recommendations. Because these estimates are approximate and are not based on detailed cost analyses, we intend them as a guide regarding the scale of financial assistance that will be required from the international community to help develop a successful Palestinian state. More precise estimates will require formal cost studies (involving detailed needs assessments), which were outside the scope of the present project. Moreover, we did not estimate the costs of all the major institutional changes and improvements in infrastructure that would be required for a successful Palestinian state.

The individual cost estimates use some common methodological approaches. Except for a few minor cases, all estimates are presented in constant 2003 U.S. dollars. In no case did we attempt to adjust the estimates for future trends in inflation or exchange rates. In all cases, we report results for the first ten years of a Palestinian state, assuming